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February 19, 1982

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Honorable John Vasconcellos, Chairman
Assembly Ways and Means Committee
State Capitol, Room 6026
Sacramento, California 95814

Dear Assemblyman Vasconcellos:

In response to your request, the Auditor General reviewed the federal financial participation for the Statewide Public Assistance Network (SPAN). This letter provides information on previous federal financial participation and the status of enhanced funding for the SPAN project. In order to gather this information, we met with state and federal officials, obtained relevant documentation, and reviewed federal and state laws.

BACKGROUND

Currently, the State's 58 counties provide public assistance through separately operated delivery systems. In July 1979, the Legislature authorized the development of a centralized delivery system for public assistance programs, to be operational by July 1984. This system, known as SPAN, will link county welfare offices to centralized state computers in order to verify recipients' eligibility promptly, to disburse benefits, and to reduce administrative complexity and the possibility of fraud and duplicate payments. The Department of Social Services operates the SPAN project for public assistance programs including Aid to Families with Dependent Children (AFDC), Food Stamps, Medi-Cal, and Child Support Enforcement.

FEDERAL FINANCIAL PARTICIPATION

The Federal Government participates financially in funding a share of the costs of operating various public assistance programs with the State. This federal financial participation

is known as FFP. Since September 1979, the State has received FFP for the planning period of the SPAN project. This FFP was authorized to a maximum of \$3,629,000 for costs involved in the SPAN's initial phase. The State received FFP from the United States Department of Agriculture (USDA) for the Food Stamp Program and from the United States Department of Health and Human Services for the AFDC, Medi-Cal, and Child Support Enforcement programs. The FFP for administering the Child Support Enforcement Program is 75 percent of allowable costs, while the other three programs receive funding at 50 percent of allowable administrative costs. The following table shows the FFP rate and the maximum amount of FFP for each program in the SPAN's initial phase.

TABLE 1

AUTHORIZED FEDERAL FINANCIAL PARTICIPATION
FOR THE SPAN'S INITIAL PLANNING PHASE

<u>Program</u>	<u>FFP Rate</u>	<u>Maximum Authorized Amount</u>
Department of Health and Human Services		
AFDC	50%	\$1,175,000
Medi-Cal	50%	531,000
Child Support Enforcement	75%	1,132,000
Department of Agriculture		
Food Stamps	50%	<u>791,000</u>
Total		<u>\$3,629,000</u>

ENHANCED FUNDING

In 1980, Congress passed Public Laws 96-249 and 96-265. These laws alter the amount of FFP available to states for automatic data processing and information retrieval systems for the AFDC, Food Stamps, and Child Support Enforcement programs. Under the

new laws, a state becomes eligible for an enhanced or higher rate of FFP when the Federal Government approves the system. Enhanced FFP for the AFDC, Food Stamp, and Child Support Enforcement programs would be retroactive to the date specified in the 1980 legislation.

Enhanced funding for the Medi-Cal Program has been authorized since 1972. Although the federal Department of Health and Human Services (DHHS) does not currently consider data processing systems, such as SPAN, to be eligible for enhanced FFP within the Medi-Cal Program, federal officials stated that this policy is presently under review. If past policy is reversed, the SPAN project could become eligible for retroactive enhanced FFP up to October 31, 1981, the end of its planning phase.

Table 2 shows the FFP rates, the enhanced FFP rates, and the retroactive dates.

TABLE 2

FEDERAL FINANCIAL PARTICIPATION RATES
 BEFORE AND AFTER FFP ENHANCEMENT LEGISLATION

<u>Program</u>	<u>FFP Rate</u>	<u>Enhanced FFP Rate</u>	<u>Retroactive Date for Enhanced FFP</u>
Department of Health and Human Services			
AFDC	50%	90%	July 1, 1981
Medi-Cal	50%	90%	October 31, 1981
Child Support Enforcement	75%	90%	July 1, 1981
Department of Agriculture			
Food Stamps	50%	75%	October 1, 1980

Under the new legislation for the AFDC, Child Support Enforcement, and Food Stamp programs, start-up activities for a data processing system are eligible for enhanced FFP. These activities include planning, developing, designing, and

installing the system. However, under existing regulations for the Medi-Cal Program, planning activities for the SPAN project are only eligible for the 50 percent FFP rate.

THE DEPARTMENT OF SOCIAL SERVICES'
EFFORTS TO OBTAIN ENHANCED FFP

The Department of Social Services is currently seeking enhanced FFP for the SPAN project. In order to qualify for enhanced FFP, the department must comply with federal laws and regulations. Generally, DHHS' regulations require the administering agency to demonstrate how the proposed system will improve efficiency, specify the types of data to be collected, and provide detailed information on the cost of the proposed system. The USDA has not yet issued regulations for enhanced FFP for the Food Stamp Program.

As of February 3, 1982, the department had not received federal approval for enhanced funding from either the DHHS or the USDA. The department submitted a request for enhanced funding to the DHHS, and it is awaiting approval. Because the regulations for the USDA are not yet final, the department has not submitted a proposal for enhanced FFP for the Food Stamp Program.

In order to clarify the department's efforts to obtain enhanced FFP, we have prepared a chronology of the pertinent events since the beginning of the SPAN project.

<u>Date</u>	<u>Action</u>
July 1979	Chapter 282, Statutes of 1979, mandated the implementation of the centralized delivery system, SPAN.
September 1979	The SPAN's initial planning phase began.
March 1980	The department submitted to the Federal Government the Advance Planning Document, which provides a cost-benefit analysis and information on the proposed system's objectives and scope.
May 1980	Congress authorized enhanced FFP for the Food Stamp Program (Public Law 96-249).

June 1980 Congress authorized enhanced FFP for the AFDC and Child Support Enforcement programs (Public Law 96-265).

The Federal Government required the department to complete the General System Design/Feasibility Analysis (GSD/FA) by April 31, 1981, in order to provide further detailed information on the implementation plan for the SPAN project.

The SPAN project was initially funded at the normal FFP rates to a maximum of \$2.53 million through April 30, 1981.

January 1981 The department completed the GSD/FA.

August 1981 The AFDC, Medi-Cal, and Child Support Enforcement programs provided interim funding to a maximum of \$1.1 million at the normal FFP rates through October 31, 1981, while the DHHS reviewed the GSD/FA. The USDA did not provide interim funding.

The USDA issued proposed regulations for enhanced FFP for the Food Stamp Program.

September 1981 The DHHS issued regulations for enhanced FFP for the AFDC and Child Support Enforcement programs.

December 1981 The DHHS advised the department that no additional federal funds would be available after interim funding was exhausted, until further data was provided on the GSD/FA.

January 1982 The department responded to the DHHS' request for additional data and formally applied for enhanced FFP.

The DHHS is currently reviewing the department's request for enhanced funding.

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The USDA's proposed regulations for enhanced FFP have not been finalized for the Food Stamp Program. The department has not submitted a proposal for enhanced FFP.

If the Auditor General can be of further assistance, please contact Ms. Mary Noble at 445-0255.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Ingalls', with a long horizontal flourish extending to the right.

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee